



How Using Project Markup Can Boost Your Profitability

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Keeping an eye on the bottom line is essential for a financially healthy company. Most language service providers (LSPs) look at profitability at the business level by reviewing gross profit margin data (see "[Profitability in the Language Service Market](#)," Feb13). While gross profit margins serve as a useful "after-the-fact" profitability benchmark, LSPs also need a real-time measure that allows them to monitor profitability while projects are still in progress. This brief explains how you can take profitability to the project level by reviewing project markup calculations and how to use them to boost your profits.

Implement Profitability Oversight at the Project Level

The project-level profitability indicator is called the project markup. It is calculated by dividing the project revenue by the project costs. For example, a project that you invoice at US\$10,000 and costs you US\$2,500 to produce yields a project markup of 4.

$$\text{Project Markup} = \text{Project Revenue} / \text{Project Costs}$$

What goes into the project costs? They include, at a minimum, external costs from vendors. Some LSPs also include internal costs, especially for actual project tasks. Internal costs are typically calculated based on a flat hourly rate associated with hours spent on the project by your employees. That rate should represent the cost of "fully burdened" labor, which means an average of the staff's hourly rates, payroll taxes, and benefits. Ultimately, the specifics to include are up to you to decide – just be consistent in your calculation.

Project markup calculations can also be helpful for budgeting projects. For example, you can figure how much you will be able to pay vendors based on the markup you wish to achieve, instead of basing those decisions on standard vendor rates.

$$\text{Project Budget} = \text{Estimated Project Revenue} / \text{Desired Project Markup}$$

Some LSPs use this logic in reverse to quote new projects. They determine how much to charge clients based on expected vendor rates that they multiply by the desired

markup. In such cases, the markup represents the amount that is added to the cost to determine the asking price.

$$\text{Client Quote} = \text{Estimated Project Costs} \times \text{Desired Project Markup}$$

Without a project-level profitability metric, teams working on translation projects feel that they have little control over the elements that allow the company to be profitable. They can't see how the fruits of their labor can have an impact on the bottom line.

Track Project Markup Performance to Generate Results

You can analyze project markup in a variety of ways. It is a very flexible measurement that you can use at the individual, account, or project-type level ([see Table 1](#)).

Filter project markup by...	In order to...
Project	Determine whether the project made any money.
Salesperson	Ensure salespeople don't discount too heavily.
Project manager	Make sure project managers manage their costs closely.
Production unit	Compare the performance of different production teams.
Client	Check whether handling a specific account is profitable.
Project size	Assess the type of projects where you are better at controlling costs.
Vertical	Assess which industries are most profitable for you.
Type of project	Compare the profitability of different lines of services.

Table 1: How to Use Project Markup Calculations

Source: Common Sense Advisory, Inc.

Select a few ways to slice the data and track the results over time. Markup can be monitored in real time as project managers add costs to a project. The more specialized analyses are an annual exercise to pinpoint areas where profitability can be improved. No matter how frequently you measure, use the data to:

- **Control your project costs.** When you have calculated your break-even point and the minimum project markup you'll need to realize a profit, it becomes much easier to see where to focus your cost-control efforts. Tying results to employee performance reviews and even compensation may help align the team's motivation with your business goals.
- **Train your staff on the impact of their decisions.** Project markup brings the profitability discussion to the staff level and gives them the ability to influence the

results. Give your team the tools and techniques to help them pinpoint when they'll go over budget and what to do about it.

- **Fine-tune your project estimates.** Review the root cause of low markups regularly to figure out if your hourly estimates and the benchmarks used for calculations are on target. Adjust those as needed.
- **Verify that clients are charged for all work done.** A check on actual project markup before client billing can be a powerful guide to pinpoint missing charges on invoices. Low project markups will frequently reveal additional services that weren't transferred to the total bill (often referred to as "scope creep").
- **Assess the best revenue mix for your company.** The regular analysis of your project markup results will allow you to pinpoint the most profitable types of projects. Use this data to direct your sales team to pursue similar accounts.

Three Things to Watch For When Using Project Markup

As with any metric, you need to be aware of some important guidelines related to pitfalls of the measurement in order to use it properly:

1. **Have a strategy for currency conversions.** When clients are billed in one currency and vendors are paid in another, you may face problems when trying to budget your project. Depending on the volatility of the currencies in question, consider a buffer in the calculation for potential currency variations between the time of budget calculation and the time of the actual bank transactions.
2. **Use the data carefully in performance evaluation.** A salesperson may have a low average project markup because you recommended dropping the price to land the business. Likewise, project managers may have a low score because of the nature of the projects they were assigned, or because of project-related issues that were beyond their control. Average project markups can be helpful when you discuss career advancement or calculate bonuses, but keep those extenuating circumstances in mind.
3. **Don't let project markup run your business.** If you do, your project managers may focus only on profits at the expense of quality or turnaround time. It is a tool, one that you need to balance with others to achieve your strategic objectives.